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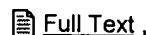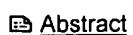
INTERNET WORLD

The supply chain, simplified via the Web

Bill Roberts. **Internet World**. Cleveland: Oct 15, 1999.Vol.5, Iss. 31; pg. 57, 2 pgs

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Abstract (Document Summary)

ⓘLexmark International Inc. uses Digital Market Inc.'s Digital Buyer to move the request for quote (RFQ) process to the Internet. For now, Lexmark Electronics is using Digital Buyer with 40 suppliers around the world to request and receive bills of material quotes for its plant in Lexington, Kentucky. Each RFQ is posted to an extranet site, which sends an e-mail to appropriate suppliers. Suppliers can download the file and format it any way they want it, then enter the quote and upload back to the extranet site.

Full Text (952 words)

MANUFACTURERS SEEKING PRICE quotes for components and other direct materials for their new products must rely on mail, phone calls, and faxes to and from a phalanx of suppliers. The request for quote (RFQ) process involves reams of paperwork and hours or days spent inputting information. It is rife with errors, lost time, and missed savings opportunities.

Now, several electronics manufacturers have found the key to solving this logistical nightmare: They have moved the RFQ process to the Internet using software from Digital Market Inc. to automate sourcing. The companies expect to see lower overall costs and faster times to market for new products.

In the electronics industry, a single product may require hundreds of individual parts that together may account for as much as 80 percent of the product's total cost. Sourcing is thus the optimum point in the supply-chain management system to influence expenses.

In the past year, several electronics manufacturers have adopted Digital Market's Digital Buyer software. One of them is ⓘLexmark International Inc., a $3 billion company that makes printers and related products for its own brand and under contract for others. ⓘLexmark executives say they hope eventually to have a state-of-the-art, Internet-based end-to-end supply-chain management system. They have begun the transformation with Lexmark Electronics, a division that makes components such as electronic printed circuit boards for other divisions and under contract for outside customers.

The RFQ process for Lexmark Electronics falls early in the design cycle, often months before manufacturing begins, and often in support of the division's bid for contract work. A swifter, more accurate RFQ process means the divisions buyers can analyze supplier bids in record time. For now, the division is using Digital Buyer with 40 suppliers around the world to request and receive bills of material quotes for its plant in Lexington, Ky. Eventually, Lexmark Electronics will use the Web-based application with a total of 150 suppliers that represent 80 percent of its purchases. The division will also use the system to automate RFQ for its plant in the Czech Republic, says Eric Schwarz, corporate purchasing manager. If those efforts go well, Schwarz says, the parent company might adopt Digital Buyer at its four other plants.

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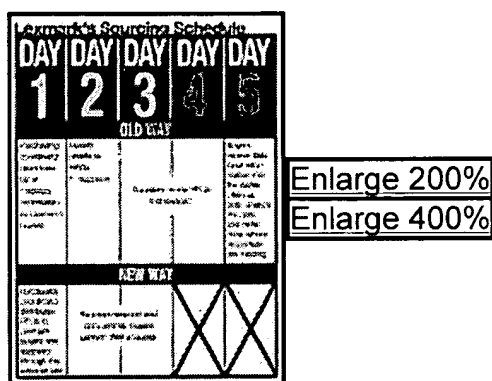
ⓘLexmark's Sourcing Schedule

Here's how the new system works: Schwarz issues an average of four RFQs per week. Each RFQ contains a bill of materials listing 100 to 200 distinct parts that have universal **catalog** numbers. Typically, two or three suppliers are capable of making each part, which means one RFQ can yield some 300 to 400 responses.

Using Digital Buyer, Schwarz posts each RFQ to an extranet site, which sends an e-mail to appropriate suppliers. Suppliers hotlink from the e-mail to the extranet site, type in a user name and password, and see only the items on the bill of materials that correspond to their products. **Suppliers** can **download** the file and format it any way they want-as an Excel spreadsheet, for example-then enter the quote and upload back to the extranet site. ⓘLexmark can then download the quote directly into its own Excel spreadsheets. "We see pricing come in that we don't have to touch," says Schwarz. Another benefit: When Schwarz enters a new RFQ, the system will tell him if he's recently received quotes for any of the parts involved and display those quotes.

The supplier side benefits, too. "All you have to have is a browser and an ISP provider," says Matt Kelsch, vice president of Carlson Electronic Sales Associates Inc. Carlson represents various component manufacturers, including ⓘToshiba Semiconductor, and uses Digital Buyer with several original equipment manufacturers (OEMs), soon to include ⓘLexmark.

When an OEM launches Digital Buyer, Kelsch says, he simply goes to the extranet site and registers to do business by providing basic information about his company and its product lines. On average, Kelsch says, the system cuts his response time to RFQs from four days to one.

Tim Minahan, an analyst with the ⓘAberdeen Group, says Digital Buyer is the only software available for Internet-based direct materials sourcing. The model for the software is Digital Exchange, a Web site Digital Market launched in 1996 where electronics component distributors and procurement organizations can sell and buy parts for a

transaction fee. Larger manufacturers told Digital Market they would prefer to run their own sites. That led to the development of Digital Buyer, which is available either as an enterprise software application or on a rental and outsource basis with Digital Market as host. A typical pilot installation runs around $250,000, including integration, training, and services, the company says.

Electronics manufacturers currently are the only users of Digital Buyer, but company executives say they may eventually offer the software to other client categories. Minahan says auto, aerospace, and industrial equipment manufacturers also face complicated sourcing problems and would benefit from automating direct materials sourcing on the Internet.

A study by a group of *Ⓘ*Stanford University graduate business students under the direction of Prof Hau Lee looked at the benefits of Digital Buyer to *Ⓘ*Solectron Corp., an electronics contract manufacturer. The study found that the software slashed *Ⓘ*Solectron's time spent sending and receiving RFQs from ten days to turnaround times that range from four hours to two days.

Schwarz reports similar success. The system has cut the turnaround time on RFQs from five business days to two or three, he says, and has saved Lexmark Electronics from hiring at least one other staff person. Schwarz estimates that overall savings could range from roughly half a million to a million dollars a year in decreased costs and increased revenue-the increases resulting from more accurate bidding on contract work. "Fundamentally, being able to interact with suppliers over the Internet just makes sense," he says.

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